

Message Text

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ACTION IO-14

INFO OCT-01 EUR-12 ISO-00 CIAE-00 COME-00 DODE-00
DOTE-00 EB-08 FMC-01 INR-07 NSAE-00 CG-00 DLOS-09
OES-07 L-03 OIC-02 AF-10 ARA-10 EA-07 NEA-10
OMB-01 TRSE-00 (ISO) W
-----051120 161132Z /15
R 161044Z AUG 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 7278

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E.O. 11652: N/A
TAGS: AORG, EWWT, IMCO, UK
SUBJECT: IMCO: HEADQUARTERS FACILITIES, 21ST MEETING
OF THE AD HOC WORKING GROUP

REF: STATE 184563

1. SUMMARY: SUBJECT IMCO AD HOC WORKING GROUP MEETING
AUGUST 8 ATTENDED BY REPRESENTATIVES FROM CANADA, FRG,
GREECE, INDONESIA, NIGERIA, UK, US AND USSR. UK CLARI-
FIED ITS ORIGINAL PROPOSAL FOR LEASE AND RENT FORMULA
FOR IMCO HEADQUARTERS TO BE BUILT ON ALBERT EMBANKMENT
SITE AND PRESENTED ALTERNATIVE FORMULA FOR DETERMINING
RENT. CONSENSUS EMERGED TO SEEK AGREEMENT BETWEEN IMCO
AND UK ON LEASE ARRANGEMENT RATHER THAN PURSUE OPTION OF
OWNERSHIP FOR IMCO THROUGH LOAN FROM UK. US PRESENTED
PROPOSALS THAT FORMULA FOR SHARING BASIC SUM DOMINATED
AS "RENT" ALSO BE APPLIED TO COSTS OF UPKEEP. FOLLOWING
EXTENSIVE DISCUSSION OF COSTS TO IMCO UNDER ALTERNATIVE
UK FORMULAS FOR DETERMINING RENT, MEMBER STATE REPRESENTATIVES
AGREED TO SEEK GUIDANCE FROM THEIR GOVERNMENTS
FOR NEXT MEETING OF GROUP, SCHEDULED FOR AUGUST 30, ON
METHOD OF ESTABLISHING RENT AND ON US PROPOSALS. GROUP
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ALSO AGREED THAT AS AN AID IN PUTTING PRINCIPAL QUESTIONS
TO GOVERNMENTS, SECRETARIAT WOULD PREPARE A REPORT OF
MEETING ENCLOSING US NOTE ON ITS PROPOSALS AND UK NOTE
ON ITS ALTERNATIVE RENT FORMULAS. END SUMMARY.

2. WORKING GROUP WITH REPRESENTATIVES PRESENT FROM ONLY
8 MEMBER STATES HEARD UK EXPLAIN ITS PROPOSAL FOR A FIXED

ANNUAL RENT FOR A NEW IMCO HEADQUARTERS BUILDING OF 12 PERCENT OF THE CAPITAL OUTLAY BY HER MAJESTY'S GOVERNMENT (HMG). ON THE BASIS OF PRESENT ESTIMATES OF 30 MILLION POUNDS FOR SITE ACQUISITION, CONSTRUCTION AND FINANCE CHARGES UP TO THE TIME OF OCCUPANCY, THE ANNUAL RENT DURING THE PROPOSED 50 YEAR LEASE WOULD BE 3.6 MILLION POUNDS, OF WHICH IMCO UNDER SHARING FORMULA PROPOSED BY UK WOULD PAY 20 PERCENT OR 720,000 POUNDS. UNDER FIRST FORMULA PROPOSED BY UK IMCO'S CONTRIBUTION INITIALLY WOULD BE 500,000 POUNDS, PROBABLY RISING ONLY AFTER THE FIRST 10 YEARS WHEN MARKET RENTS COULD BE EXPECTED TO EXCEED THE FIGURE SET BY UK OF 7.5 PERCENT OF CAPITAL OUTLAY. THEREAFTER, IMCO'S CONTRIBUTION COULD BE EXPECTED TO RISE FOLLOWING EACH 5 YEAR RENT REVIEW.

3. ONLY CANADA, FRG, USSR AND US PREPARED TO STATE OPINIONS ON TWO UK ALTERNATIVES. CANADIAN REPRESENTATIVE ACTING UNDER INSTRUCTIONS FROM OTTAWA SUPPORTED FIRST ALTERNATIVE ON BASIS THAT IF UK PROPOSED PERCENTAGES (7.5 AND 12) ACCEPTED, FIRST ALTERNATIVE WAS CHEAPER FOR IMCO IN FORESEEABLE FUTURE. USSR PREFERRED SECOND ALTERNATIVE BUT RAISED QUESTION WHETHER 12 PERCENT COULD NOT BE TREATED AS A CEILING WITH INTEREST RATE TO VARY DOWNWARD ON BASIS OF SOME HMG LONG-TERM BORROWING INTEREST RATE. FRG ALSO PREFERRED SECOND ALTERNATIVE, BUT UNDER INSTRUCTIONS STRESSED FRG'S DESIRE THAT IMCO BE ENABLED LIMITED OFFICIAL USE

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TO OWN BUILDING ULTIMATELY AND RAISED QUESTION OF IMCO HAVING AN OPTION FROM UK TO BUY BUILDING AT UK CAPITAL OUTLAY COST DURING LIFE OF LEASE. US, IN PRESENTING ITS PROPOSALS FOR SHARING OF COSTS OF UPKEEP, INDICATED ITS PREFERENCE FOR FIXED ANNUAL RENT ALTERNATIVE, BUT TREATED 12 PERCENT FIGURE AS MATTER FOR FURTHER NEGOTIATION. OTHER DELEGATIONS INDICATED THAT THEY HAD NO INSTRUCTIONS ALTHOUGH INDONESIAN REP COMMENTED UPON HIGH COST OF RENT (14 POUNDS/SQ. FT. UNDER FIRST UK PROPOSAL AND 20.25 POUNDS UNDER SECOND) COMPARED TO EARLIER ESTIMATES.

4. US REP MADE CLEAR THAT US WAS SUGGESTING UK SHARE ONLY THOSE COSTS OF UPKEEP ATTRIBUTABLE TO MAINTAINING BASIC FUNCTIONS AND VALUE OF BUILDING, NOT OPERATIONAL EXPENSES OF IMCO AS TENANT. THUS, COSTS TO BE SHARED WOULD INCLUDE MAINTENANCE AND REPAIRS TO EXTERIOR OF BUILDING AND ITS STRUCTURE, MAJOR REPAIRS AND REPLACEMENT OF PLANT AND EQUIPMENT (HEATING, AIR CONDITIONING, PLUMBING AND ELECTRICAL SYSTEMS), AND INSURANCE ON THE BUILDING, BUT WOULD NOT INCLUDE INTERIOR DECORATION, OFFICE ALTERNATIVES, CLEANING, UTILITIES, RATES OR GEN-

ERAL MAINTENANCE AND MINOR REPAIRS TO PLANT AND EQUIP-

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MENT, NOR THE ONE-TIME INSTALLATION AND FURNISHING COSTS
WHICH IMCO HAS ALREADY AGREED TO BEAR.

5. GROUP SPENT CONSIDERABLE TIME CLARIFYING COSTS OF
A LEASE TO IMCO, BUT LACKING INSTRUCTIONS ON WHETHER TO
PURSUE NEGOTIATIONS ON A LEASE THROUGH FIRST OR SECOND
ALTERNATIVE RENT FORMULA OR ON SOME OTHER BASIS RELATING
TO TOTAL COST TO IMCO, IT WAS UNABLE TO TAKE ANY
DECISIONS. REPS THEREFORE AGREED UPON NECESSITY OF
OBTAINING INSTRUCTIONS AND NECESSARY FLEXIBILITY FOR
NEGOTIATIONS FROM THEIR GOVERNMENTS FOR NEXT MEETING OF
GROUP ON AUGUST 30. UK EXPRESSED URGENCY OF MOVING
QUICKLY TO AN AGREEMENT ON LEASE TERMS SO THAT HMG
COULD ACQUIRE ALBERT EMBANKMENT SITE AND COMMIT FUNDS TO
DEMOLITION AND CONSTRUCTION. HOPE WAS EXPRESSED BY
CHAIRMAN THAT GROUP MIGHT BE ABLE TO REACH AGREEMENT ON
BASIC LEASE TERMS BY LATE SEPTEMBER OR EARLY OCTOBER IF
REPS COULD COME WITH ADEQUATE INSTRUCTIONS TO AUGUST 30
MEETING. IT WAS AGREED THAT SECRETARIAT WOULD PREPARE
REPORT ON GROUP'S WORK WITH ATTACHED NOTES BY US AND UK
CLEARIFYING THEIR PROPOSALS. US REP HAS SUBMITTED A
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NOTE TO IMCO SETTING OUT IN DETAIL US PROPOSALS AND US
VIEWS. AS SOON AS SECRETARIAT PAPER WITH ATTACHMENTS
IS RECEIVED, IT WILL BE FORWARDED TO WASHINGTON FOR
CONSIDERATION.

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Message Attributes

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Decaption Note:
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